


Annual Report 1976

**THE
YUKON
CONSOLIDATED
GOLD
CORPORATION
LIMITED**



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THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

Officers

NEIL B. IVORY
President

CLIFFORD L. LAROCK, F.C.I.S.
Vice-President

RICHARD HALLER
Secretary

CYRIL F. REID
Treasurer

Executive Offices

1018 Sun Life Building,
Dominion Square,
Montreal, Quebec H3B 2W8

Directors

JAMES G. S. GAMMEL, M.B.E., C.A.
Chairman
Ivory & Sime Limited
Edinburgh, Scotland

LISLE B. GATENBY, P.ENG.
Mining Consultant,
Vancouver, B.C.

R. A. HAMMOND-CHAMBERS
Director,
Ivory & Sime Limited
Edinburgh, Scotland

NEIL B. IVORY
President,
Pembroke Management Ltd.
Montreal, Quebec

JOHN S. LANE, C.F.A.
Vice-President, Securities Investments,
Sun Life Assurance Company of Canada
Montreal, Quebec

CLIFFORD L. LAROCK, F.C.I.S.
Chairman,
Pembroke Management Ltd.
Montreal, Quebec

JAMES B. REDPATH
President and Chief
Executive Officer,
Dome Mines Limited,
Toronto, Ontario

JOHN WEATHERALL
Executive,
Montreal, Quebec

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

TO THE SHAREHOLDERS

Net income for the year was \$3,333,000 which is equivalent to \$0.34 per share and represents a substantial improvement from 1975 when there was a loss of \$331,000 or \$0.04 per share. The figures for earnings per share are based on the average number of shares outstanding during the year; if the number of shares outstanding at year end is used the per share figures would be \$0.28 and a loss of \$0.03 respectively. The improvement in net income is largely due to the recovery in earnings of Lornex.

The event of the greatest significance to Yukon during 1976 was the payment by Lornex of the interest and principal of its income debentures, from which Yukon received \$7,095,000. The receipt of these funds from Lornex enabled Yukon to eliminate all its bank loans and to make its first dividend payment since 1965. This dividend, amounting to 6½ cents per share, was paid on 12th October, 1976. All of the promissory notes of Yukon were converted prior to the record date for the dividend payment thus increasing the number of common shares outstanding to 11,887,679. The total amount required for the dividend payment was \$772,699.

Unfortunately the situation at Industrial Mineral Ventures, Inc., in which your Corporation has a 5.5% equity interest, continued to deteriorate and it was decided to write down this investment to a nominal value at a cost of \$414,248 which has been charged to income.

Comments on the investments are provided below.

Lornex Mining Corporation Ltd. (20.0% Equity)

Net revenue from mine production increased to \$82,940,000 in 1976 from \$51,043,000 in 1975 and net earnings of \$15,903,000 compared most favourably with earnings for 1975 of only \$626,000.

Production of copper in concentrate increased to 145.7 million payable pounds from 107.2 million pounds in 1975,

and the gross copper revenue price averaged 65 cents per payable pound which may be compared to 55 cents in 1975 and 72 cents in 1974.

The significant operating statistics are tabulated below: —

	1976	1975
Tons of ore milled (thousands)	17,016	12,893
Average tons milled per operating day	46,877	38,359
Average millhead grade		
— copper	0.511%	0.495%
— molybdenum	0.016%	0.016%
Average mill recovery		
— copper	86.7%	87.1%
— molybdenum	69.7%	74.3%
Pounds of payable metal in concentrate produced (thousands)		
— copper	145,712	107,160
— molybdenum	3,769	3,084
Pounds of payable metal in concentrate delivered (thousands)		
— copper	144,301	117,891
— molybdenum	3,782	3,170

The British Columbia government passed new tax legislation, effective 1st January, 1976, which resulted in a modest reduction in total income and mineral resource taxes otherwise payable for the year. The legislation eliminated government mineral royalties commencing in 1977, but it replaced the existing 15% mining tax with a 17.5% mineral resource tax and eliminated the deductibility of certain items in the calculation of provincial income tax. Royalties paid on deliveries made in 1976 are recoverable by deduction from mineral resource taxes payable after 1st January, 1976.

The loans from the Canadian banks and the Japanese consortium arranged to finance the original development of Lornex totalled \$86.8 million and, in addition, Lornex obtained \$44.1 million through the issue of Income Debenture units. Repayment of the loans from the banks and the Japanese consortium was completed in 1976 and, by 30th September, 1976, the principal and accrued interest of the Income Debenture amounted to \$71 million. This debt was repaid in full on that date mainly from the proceeds of new bank loans in the amount of U.S. \$70 million which are repayable on a target schedule basis over a five year term. Unlike interest on the Income Debentures, the interest charges on these new loans are deductible for tax purposes and dividend restrictions are

less rigid than those that were in effect while the Income Debentures were outstanding. The first repayment of U.S. \$7.0 million was made on 15th February, 1977.

Ore reserves were increased during the year by 98 million tons with an average grade of 0.444% copper and 0.019% molybdenum and, at year end, total ore reserves were estimated to be 500 million tons with an average grade of 0.412% copper and 0.015% molybdenum.

Crows Nest Industries Limited

(36.7% Equity)

The results showed an improvement over the previous year due to higher prices for lumber and also for oil and gas. In 1976 total net income amounted to \$918,000, or \$1.22 per share, compared to \$487,000, or \$0.65 per share, for 1975. Crows Nest is in a strong financial position having no long term debt and working capital of \$4,362,000.

The importance of the reserves of metallurgical coal held by Crows Nest is becoming increasingly evident, and, on 1st January, 1977, Crows Nest started to earn production payments at a rate of 50 cents per short ton of coal produced and shipped by Kaiser Resources Ltd. from properties formerly held by Crows Nest. These payments, which are pursuant to an agreement between Crows Nest and Kaiser Resources, will continue until a total of \$34,000,000 has been paid. Shipments from these properties have recently been at a rate of around 6,000,000 short tons per annum but could temporarily be at a lower rate because of reduced demand. Under the agreement Kaiser has also returned to Crows Nest 43,000 acres of coal bearing freehold lands.

In addition Crows Nest holds a total of approximately 43,370 acres of coal licences with 18,650 acres being subject to an agreement with Mitsui & Co. under which a feasibility study will be completed in 1977. If it is decided to proceed, Mitsui will be responsible for financing the project in return for a 49% interest.

For 1977 the outlook for increased earnings at Crows Nest is favourable due to the commencement of production payments from Kaiser resources, continuing high price levels for oil and gas and reasonably good prospects for the forest products division.

Barymin Explorations Limited

(13.9% Equity)

Barymin recently acquired the 34% of the share capital of Yava Mines which it did not already hold. Yava thus becomes a wholly-owned subsidiary of Barymin. Yava holds a large low grade lead deposit located 25 miles southwest of Sydney, Nova Scotia and the feasibility of developing this deposit is under review.

Barymin's exploration work in Ireland has led to the discovery of an extensive zone of low grade zinc-lead mineralization where further drilling will be conducted this year.

Drilling programs in Quebec and New York State have not been successful and have been terminated.

Placer Claims in the Klondike District, Y.T.

Operations by lessees on the placer claims resulted in the payment of royalties to the Corporation of \$32,000 (\$39,000 in 1975).

Special and Annual General Meeting

Special and Annual General Meetings of Shareholders of the Corporation will be held on 5th May, 1977.

The Special Meeting is for the purpose of authorizing continuance of the Corporation under the new Canada Business Corporations Act and to approve new general and administrative by-laws which will conform with that Act.

On behalf of the Board,

Montreal, Quebec,
28th February, 1977.

NEIL B. IVORY,
PRESIDENT

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

STATEMENT OF FINANCIAL POSITION

31st December, 1976

	1976	1975
Investments		
Associated companies (Note 2)	\$25,479,000	\$28,397,845
Other investments (Note 3)	496,382	910,630
	<u>25,975,382</u>	<u>29,308,475</u>
Current Assets		
Cash and term deposits	707,276	29,881
Sundry receivables	54,545	75,035
	<u>761,821</u>	<u>104,916</u>
Current Liabilities		
Accounts payable	2,788	48,771
Unclaimed dividends	5,626	5,626
	<u>8,414</u>	<u>54,397</u>
Net Current Assets	<u>753,407</u>	<u>50,519</u>
	26,728,789	29,358,994
Bank Loans	—	5,190,960
Promissory Notes	<u>—</u>	<u>7,047,000</u>
Shareholders' Equity	<u>\$26,728,789</u>	<u>\$17,121,034</u>
Represented by:		
Share capital (Note 4)	\$11,931,979	\$ 7,905,123
Contributed surplus	3,020,142	—
Retained earnings	<u>11,776,668</u>	<u>9,215,911</u>
	<u>\$26,728,789</u>	<u>\$17,121,034</u>

Approved by the board:

Neil B. Ivory, Director

C. L. Larock, Director

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended 31st December, 1976

	1976	1975
Income		
Share of net earnings of associated companies		
Crows Nest Industries Limited	\$ 230,500	\$ 73,160
Lornex Mining Corporation Ltd.	<u>3,072,000</u>	<u>64,500</u>
	3,302,500	137,660
Lornex income debenture interest	476,877	596,479
Other income	<u>54,502</u>	<u>42,497</u>
	<u>3,833,879</u>	<u>776,636</u>
Expenses		
Management	92,000	83,883
General and administrative	48,015	37,457
Interest	<u>491,810</u>	<u>612,054</u>
	<u>631,825</u>	<u>733,394</u>
Income before undernoted items	3,202,054	43,242
Interest deferred in prior years	545,650	—
Write-down of investments	<u>(414,248)</u>	<u>(374,250)</u>
Net Income (Loss) for Year	3,333,456	(331,008)
Retained earnings at beginning of year	9,215,911	9,546,919
Dividend paid	<u>(772,699)</u>	<u>—</u>
Retained Earnings at End of Year	<u>\$11,776,668</u>	<u>\$ 9,215,911</u>
Net income (loss) per share		
(based on weighted average number of shares outstanding)	<u>\$0.34</u>	<u>\$(0.04)</u>

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended 31st December, 1976

	1976	1975
Source of Funds		
Net income (loss) for year	\$ 3,333,456	\$ (331,008)
Less: Non-cash items, —		
Share of net earnings of associated companies, net of dividends received of \$148,500 (1975 — \$137,500)	3,154,000	160
Lornex income debenture interest, —		
accrued this year	476,877	596,479
deferred in prior years	545,650	—
Write-down of investments	(414,248)	(374,250)
	<u>3,762,279</u>	<u>222,389</u>
	(428,823)	(553,397)
Issue of common shares	7,047,000	—
Redemption proceeds of Lornex income debentures and accrued interest	7,095,370	—
Proceeds from disposal of subsidiary company	—	240,000
Increase in bank loans	<u>409,040</u>	<u>342,606</u>
	<u>14,122,587</u>	<u>29,209</u>
Application of Funds		
Conversion of promissory notes	7,047,000	—
Repayment of bank loans	5,600,000	—
Dividend	772,699	—
	<u>13,419,699</u>	<u>—</u>
Increase in Net Current Assets	702,888	29,209
Net current assets at beginning of year	<u>50,519</u>	<u>21,310</u>
Net Current Assets at End of Year	<u>\$ 753,407</u>	<u>\$ 50,519</u>

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

NOTES TO FINANCIAL STATEMENTS

31st December, 1976

Note 1. Accounting Policies

Associated Companies —

The Corporation uses the equity method of accounting for its investments in associated companies. The excess of cost over equity of such investments is being amortized either on a straight line or unit of production basis, the amount amortized being deducted in arriving at share of net earnings.

Other Investments —

Other investments of the Corporation are carried in the accounts at cost or at written-down value based on Directors' estimate of fair value.

Note 2. Associated Companies

	1976	1975
CROWS NEST INDUSTRIES LIMITED		
275,000 common shares at equity value (36.65% equity)	\$ 5,704,800	\$ 5,519,220
Excess cost of shares over equity value, less amortization	<u>1,651,200</u>	<u>1,754,780</u>
	<u>\$ 7,356,000</u>	<u>\$ 7,274,000</u>

The excess cost over equity of the Corporation's investment in Crows Nest Industries shares is being amortized over 20 years. The amount of such amortization for the year was \$103,580 (1975 — \$103,220).

LORNEX MINING CORPORATION LTD.

1,650,000 common shares at equity value (19.95% equity)	\$16,228,000	\$13,075,000
Excess cost of shares over equity value, less amortization	<u>1,895,000</u>	<u>1,976,000</u>
	<u>\$18,123,000</u>	<u>\$15,051,000</u>

8½% series A unsecured income debentures,
due 31st December, 1985

(redeemed 30th September, 1976)

\$4,410,000 principal amount, at cost

Accumulated interest, less deferred portion

\$ —	\$ 4,410,000
<u>—</u>	<u>1,662,845</u>
<u>\$ —</u>	<u>\$ 6,072,845</u>
<u>\$25,479,000</u>	<u>\$28,397,845</u>

TOTAL ASSOCIATED COMPANIES

The excess cost over equity of the Corporation's investment in Lornex shares is being amortized on a unit of production basis over the estimated ore reserves of Lornex. Such amortization for the year was \$81,000 (1975 — \$61,000).

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

Note 3. Other Investments

	1976	1975
BARYMIN EXPLORATIONS LIMITED (at cost)		
700,000 common shares, n.p.v. (market value \$336,000)	\$ 496,380	\$ 496,380
INDUSTRIAL MINERAL VENTURES, INC. (at written-down value)		
31,800 common shares, U.S. \$1 par value	1	318,000
U.S. \$350,000 1% — 10% subordinated debentures, due 31/12/80-86 at rate of U.S. \$50,000 per annum	1	96,250
	<u>\$ 496,382</u>	<u>\$ 910,630</u>

Note 4. Share Capital

3% non-cumulative redeemable preferred shares of \$1. each				
Authorized	<u>3,000,000 shares</u>	<u>\$ 3,000,000</u>		
Common shares of \$1. each				
Authorized	<u>16,000,000 shares</u>	<u>\$16,000,000</u>		
Issued at beginning of year	7,860,823 shares		\$ 7,860,823	\$ 7,860,823
Issued during year upon conversion of promissory notes	<u>4,026,856 shares</u>		<u>4,026,856</u>	—
	11,887,679 shares		11,887,679	7,860,823
Reserved for issue in exchange for securities of former subsidiary companies	<u>44,300 shares</u>		<u>44,300</u>	<u>44,300</u>
	<u>11,931,979 shares</u>		<u>\$11,931,979</u>	<u>\$ 7,905,123</u>

Note 5. Directors and Officers

The Board of Directors consists of eight members whose aggregate remuneration during the year amounted to \$12,000 (1975 — \$11,382). There are four officers of the Corporation, two of whom are also directors. The officers, as such, received no remuneration during the year.

AUDITORS' REPORT

To the Shareholders,
The Yukon Consolidated Gold Corporation Limited:

We have examined the statement of financial position of The Yukon Consolidated Gold Corporation Limited as at 31st December, 1976 and the statements of income and retained earnings and changes in financial position for the year then ended. For The Yukon Consolidated Gold Corporation Limited our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion these financial statements are properly drawn up so as to present fairly the financial position of the Corporation as at 31st December, 1976 and the results of its operations and the changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

28th February, 1977

Price Waterhouse & Co.
Chartered Accountants

THE YUKON CONSOLIDATED GOLD CORPORATION LIMITED

Registered Office

Royal Trust Tower, Bentall Centre,
555 Burrard Street,
Vancouver, B.C. V6B 3R7

Managers

PEMBROKE MANAGEMENT LTD.,
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Dominion Square,
Montreal, Quebec H3B 2W8

Auditors

PRICE WATERHOUSE & CO.,
1200 McGill College Avenue,
Montreal, Quebec H3B 2G4

Canadian Registrar and Transfer Agent

THE ROYAL TRUST COMPANY:
555 Burrard Street, Vancouver, B.C.;
Toronto-Dominion Centre, Toronto, Ontario;
630 Dorchester Blvd. West, Montreal, Quebec.

United Kingdom Registrar

CENTRAL REGISTRATION LIMITED,
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Bristol, BS1 6NT, England

United Kingdom Transfer Committee

LESLIE A. BRODER
NORMAN LESLIE FOSKETT
G. C. LLOYD-DAVIS

Secretary, United Kingdom Transfer Committee

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Shares Listed

Montreal Stock Exchange
Toronto Stock Exchange

